

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 AGR-20 PA-04 PRS-01 USIA-15 DRC-01 /175 W

----- 085701

R 111255Z JUL 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 4404

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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E. O. 11652: N/A

TAGS: EFIN, BR

SUBJECT: CDE DEFINES BRAZIL'S BALANCE OF PAYMENTS STRATEGY FOR
NEXT FOUR YEARS

REF: A. BRASILIA 4685; B. BRASILIA 4852

1. SUMMARY: THE ECONOMIC DEVELOPMENT COUNCIL (CDE)
IN ITS LAST SESSION APPROVED BRAZIL'S BALANCE OF PAYMENTS
STRATEGY FOR THE NEXT FOUR YEARS. THE MAJOR POINTS OF THIS
STRATEGY ARE (A) TO MAINTAIN A CONSTANT LEVEL OF TRADE DEFICIT,
(B) TO REDUCE THE CURRENT ACCOUNT DEFICIT TO A PERCENTAGE
(UNDEFINED) OF GROSS CAPITAL FORMATION, (C) TO MAINTAIN A
HIGH LEVEL OF OFFICIAL RESERVES AND TO SEE THEM INCREASE
GRADUALLY, AND (D) TO CONTINUE EFFORTS TO INTEGRATE THE
BRAZILIAN ECONOMY INTO THE WORLD ECONOMY. WHILE THIS STRATEGY
STATEMENT IS NOT BEING HERALDED AS REPRESENTING A DEPARTURE
FROM PAST POLICIES, IT APPEARS TO POINT TO TWO AREAS OF
POTENTIAL CHANGES. FIRST, THE TARGET OF A CONSTANT TRADE
DEFICIT CARRIES THE IMPLICATION THAT THE GOB MAY BE PREPARED TO
REDUCE ITS 10 PERCENT ANNUAL GROWTH RATE TO MEET THIS OBJECTIVE.

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SECOND, BY FIXING A RELATIONSHIP BETWEEN THE CURRENT ACCOUNT

DEFICIT AND GROSS CAPITAL FORMATION, THE GOB MAY IN FACT BE SETTING AN UPPER LIMIT ON THE LEVEL OF FOREIGN SAVINGS PERMITTED TO FINANCE DOMESTIC INVESTMENTS. END SUMMARY.

2. FOLLOWING ITS DECISION OF JUNE 24 TO LIMIT CERTAIN IMPORTS OF CONSUMER GOODS (SEE REFTEL A) IN THE FACE OF AN UNEXPECTED DETERIORATION IN THE BALANCE OF TRADE, THE ECONOMIC DEVELOPMENT COUNCIL AGAIN TURNED ITS ATTENTION TO BRAZIL'S BALANCE OF PAYMENTS SITUATION IN ITS MEETING OF JULY 4. IN THIS LAST SESSION, THE CDE OUTLINED AND APPROVED BRAZIL'S BALANCE OF PAYMENTS STRATEGY FOR THE NEXT FOUR YEARS, SOME ASPECTS OF WHICH WERE ALREADY NOTED BY FINANCE MINISTER SIMONSEN IN HIS RECENT PRESENTATION BEFORE THE BRAZILIAN SENATE ECONOMIC AND FINANCE COMMISSION (SEE REFTEL B).

3. THE MAJOR POINTS OF THE BALANCE OF PAYMENTS STRATEGY FOR THE NEXT FOUR YEARS APPROVED BY THE CDE ARE AS FOLLOWS:

A. TO TRY TO MAINTAIN THE CURRENT LEVEL OF THE TRADE DEFICIT CONSTANT;

B. TO TRY TO REDUCE THE CURRENT ACCOUNT DEFICIT TO A PERCENTAGE OF GROSS CAPITAL FORMATION "WHICH REPRESENTS A NORMAL LEVEL, OVER THE MEDIUM AND LONG-TERM, OF ABSORPTION OF FOREIGN SAVINGS, WITHIN THE FRAMEWORK OF FINANCING THE PRE-PONDERANT PORTION OF DOMESTIC INVESTMENT THROUGH DOMESTIC SAVINGS".

C. ON THE CAPITAL ACCOUNT, IT IS EXPECTED THAT THE INFLOW OF CAPITAL -- BOTH FINANCIAL LOANS AND DIRECT INVESTMENTS -- WILL CONTINUE AT LEVELS CONSISTENT WITH THE ATTAINMENT OF OVERALL SURPLUSES, EQUAL TO THOSE OF RECENT YEARS. IT IS EXPECTED THAT OFFICIAL RESERVES WILL REMAIN AT A HIGH LEVEL AND WILL INCREASE GRADUALLY.

D. IN THE EXTERNAL AREA, IN GENERAL, BRAZIL WILL CONTINUE ITS POLICY OF TRYING TO REACH A BETTER INTEGRATION INTO THE WORLD ECONOMY "WITHOUT MAKING DOMESTIC ECONOMIC OBJECTIVES VULNERABLE". IN THIS CONNECTION, IT IS IMPORTANT TO CONTINUE TO BRING ABOUT A DIVERSIFICATION OF EXPORT MARKETS AND EXPORT PRODUCTS AND TO DIVERSIFY THE SOURCES OF FOREIGN CAPITAL INCORPORATED IN THE ECONOMY.

4. COMMENT: THIS BALANCE OF PAYMENTS STRATEGY IS NOT BEING LIMITED OFFICIAL USE

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GENERALLY INTERPRETED AS A DEPARTURE FROM PAST POLICIES. HOWEVER, IT SEEMS TO US TO POINT TO TWO AREAS WHERE IT COULD LEAD TO CHANGES, ALTHOUGH ITS EXACT SIGNIFICANCE IS DIFFICULT TO GAUGE BECAUSE THE STATEMENT IS COUCHED IN GENERAL TERMS. FIRST, THE GOAL OF MAINTAINING A CONSTANT ABSOLUTE LEVEL OF TRADE DEFICIT IMPLIES THAT THE GOB WOULD BE WILLING TO LOWER ITS 10 PERCENT GROWTH TARGET TO MEET THIS OBJECTIVE. WHETHER THIS WILL IN FACT HAVE TO BE BROUGHT ABOUT DEPENDS ON (A)

THE GROWTH OF EXPORTS AND (B) ON THE RESULTS OF OFFICIAL EFFORTS AT IMPORT SUBSTITUTION IN THE CAPITAL GOODS INDUSTRY. SHOULD EXPORTS FALL SHORT OF EXPECTATIONS AND IMPORT SUBSTITUTION NOT BE AS SUCCESSFUL AS CURRENTLY PLANNED, THE GOB MAY BE FORCED TO CUT BACK ITS CURRENT GROWTH RATE TARGET IN ORDER TO MEET THE OBJECTIVES OF A CONSTANT TRADE DEFICIT. SECOND, BY FIXING A RELATIONSHIP (WHICH THE STATEMENT DOES NOT DEFINE) BETWEEN THE CURRENT ACCOUNT DEFICIT AND GROSS CAPITAL FORMATION, THE GOB MAY IN FACT BE IMPOSING AN UPPER LIMIT ON THE LEVEL OF EXTERNAL SAVINGS THAT WILL BE PERMITTED TO FINANCE DOMESTIC INVESTMENT. THE FIRST OF THESE TWO POINTS WOULD NOT REPRESENT A SIGNIFICANT DEPARTURE FROM PAST POLICIES SINCE FINANCE MINISTER SIMONSEN HAS STATED PRIVATELY THAT THE 10 PERCENT GROWTH TARGET WOULD BE MAINTAINED ONLY AS LONG AS THE BALANCE OF PAYMENTS PERMITTED. THE SECOND POINT, I.E., MAINTAINING A RELATIONSHIP (YET UNDEFINED) BETWEEN THE CURRENT ACCOUNT DEFICIT AND GROSS CAPITAL FORMATION, DOES APPEAR TO REPRESENT A SIGNIFICANT DEPARTURE FROM PAST POLICIES. WHAT THIS STATEMENT IS SAYING IS THAT THE INFLOW OF FOREIGN CAPITAL, WHICH IS THE COUNTERPART OF THE CURRENT ACCOUNT DEFICIT, IS TO BE CONFINED WITHIN THE GENERAL PARAMETER SET BY THIS RELATIONSHIP, ALTHOUGH SOME LEEWAY IS PERMITTED BY THE FACT THAT OFFICIAL RESERVES SHOULD RISE GRADUALLY OVER TIME. HERETOFORE, ON THE OTHER HAND, THE ONLY CONDITION IMPOSED ON THE INFLOW OF FOREIGN FUNDS HAS BEEN BRAZIL'S ABILITY TO SERVICE THE FOREIGN DEBT AND TO MAINTAIN DOMESTIC MONETARY STABILITY. CRIMMINS

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